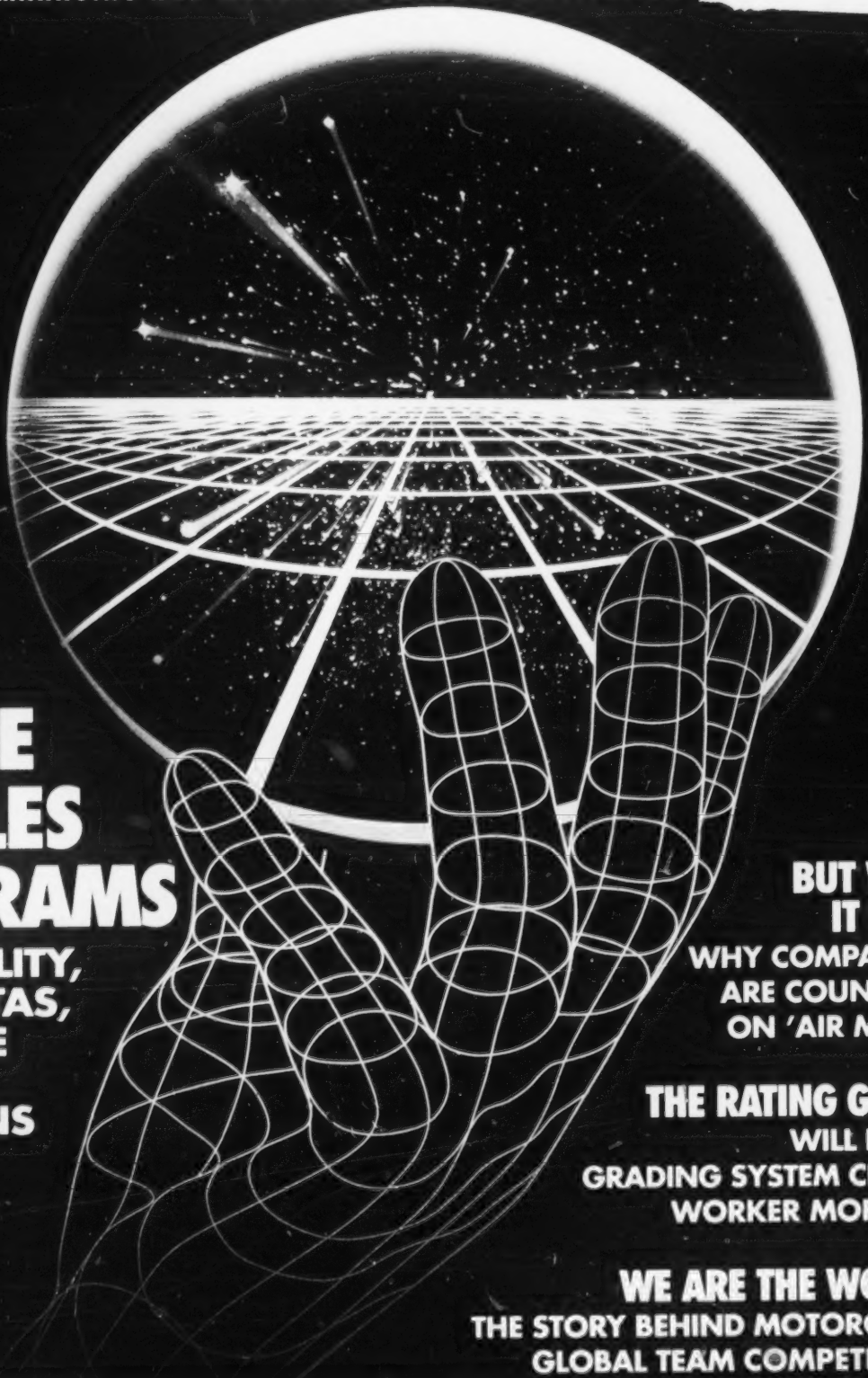
MAY 1992
SECTION ONE
OF TWO SECTIONS

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION



THE FUTURE OF SALES PROGRAMS

WHY QUALITY, NOT QUOTAS, WILL DRIVE DYNAMIC CAMPAIGNS

BUT WILL IT FLY?

WHY COMPANIES ARE COUNTING ON 'AIR MILES'

THE RATING GAME

WILL IBM'S GRADING SYSTEM CRUSH WORKER MORALE?

WE ARE THE WORLD

THE STORY BEHIND MOTOROLA'S GLOBAL TEAM COMPETITION

A BILL PUBLICATION

Sculpting a new culture. **57**

Teeing off customers. **57**

Teamwork, center stage. **30**

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INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

MAY 1992
88TH YEAR,
VOL. 166, NO. 5

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INCENTIVE helps companies become more productive and improve the quality of their work by motivating employees to work more effectively and customers at all levels to buy. Our stories demonstrate the benefits of integrating internal motivation programs and external marketing efforts.

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FROM THE EDITOR

THE NEW PATHS TO SUCCESS

BY BRUCE BOLGER

Four years ago, **Incentive** dropped the word "marketing" from its title and announced a new mission—maximizing business performance through people. Instead of focusing primarily on incentives in marketing, we broadened our editorial content to include incentives that target *all* aspects of business.

At the time, we predicted: "The name change heralds a new era in American business, one in which people—customers and employees—are a top management priority....More and more companies are discovering that effective marketing attracts good customers, but by itself can't retain them. These companies work to keep valued customers by providing genuine quality, value and service, and they have turned to their employees for help."

How right we were. Consider the latest trends in:

- *Quality.* When **Incentive** announced its new direction, Total Quality Management was a murky concept; there was no Malcolm Baldrige Award. Today, quality management has become so pervasive that leading business magazines have dedicated entire issues to it.
- *Value marketing.* Although **Incentive** didn't coin the term, it did predict today's emphasis on everyday low prices, epitomized by American Airlines' announcement last month of a dramatic new fare structure, followed swiftly by similar declarations at United. Companies have discovered that *real* everyday low pricing builds consumer loyalty better than traditional markup and markdown cycles, and that meaningful, added-value offers, such as non-cash incentives and other promotional techniques, stimulate business without recourse to discounting.
- *Non-sales incentives.* To yield results, total-quality and value-pricing strategies require a highly motivated work force dedicated to quality and efficiency. We predicted huge growth in the use of incentives for non-sales employees, and since 1988, the number of companies using such incentives has almost doubled. Today, all the magazines and seminar programs in the incentive field refer regularly to "non-sales" incentives.

Those who still don't grasp the shift in American business will find it cogently summarized in Section Two of this month's issue of **Incentive**, entitled **Leading Edge Executive**. This extensively researched section details all the major aspects of corporate America's dramatic change and outlines the vital role incentive programs play in helping companies improve customer loyalty and employee performance. It's a blueprint for companies searching for a better way to compete in the 1990's, as well as for incentive suppliers seeking to sell them programs.

We are grateful to the sponsors of **Leading Edge Executive** and to all of those who have supported our efforts over the past four years to promote this powerful, productive way of doing business.

Bruce Bolger

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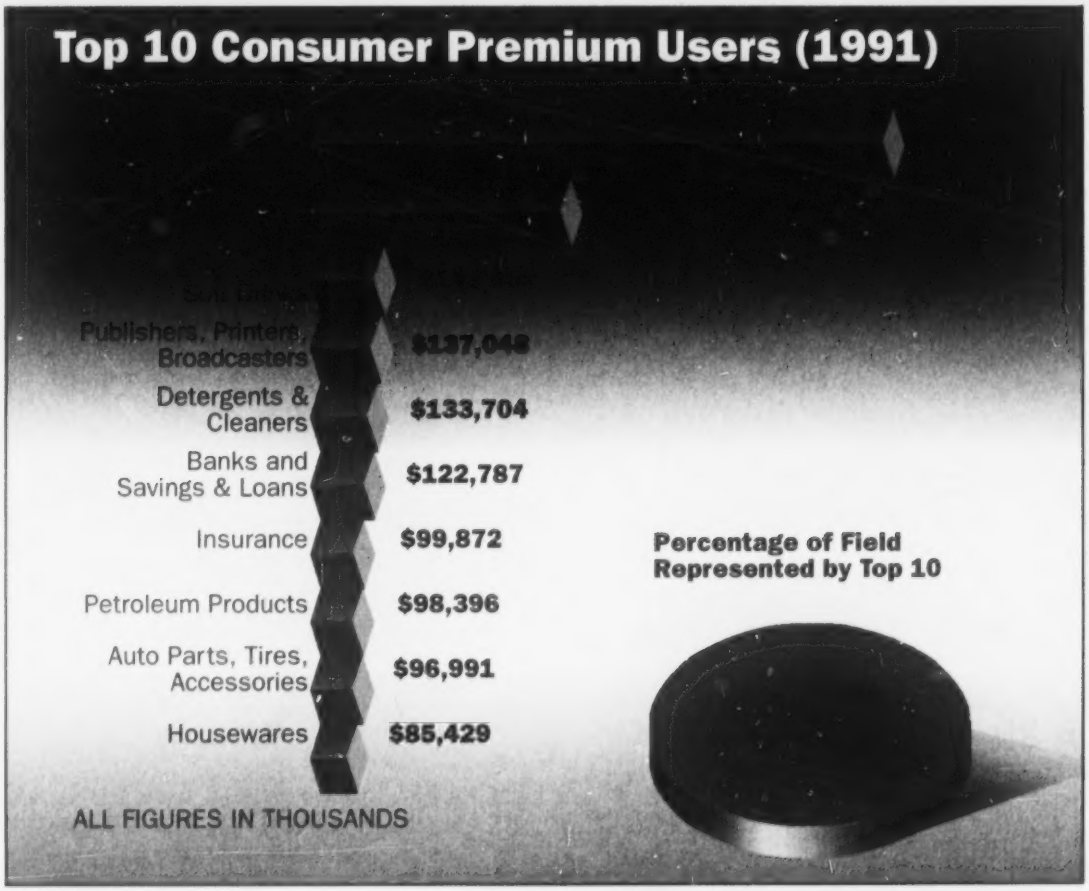


FACTS SURVEY: CONSUMER INCENTIVES

Could this be another sign of the recession's slow ebb? Marketers are planning to boost their expenditures for consumer promotions this year by spending as much as 8.6 percent more on premiums and other awards. The figure, an average of all spending projections in this year's FACTS survey, represents a considerable gain over the prediction in last year's survey.

The 1991 consumer-promotions survey showed a projected increase of only 7.3 percent, but by the time the recession had taken its toll, an end-of-year update showed marketers actually *cutting* their spending on consumer incentives by 0.4 percent. Retailers had accounted for much of that decline, showing a year-end estimate of 10.9 percent below their '90 spending on consumer incentives.

Not-so-great expectations. While sounding bullish in their current budget plans, the 183 surveyed companies have scaled down their expectations—especially in the sales yields they hope to reap from their promotions. Last year, the survey group reported an average expected gain of 18.3 percent. In the latest study, their forecasts reveal only a 13.5-percent expected increase in sales during the consumer-promotion

Marketers plan to spend a lot more on consumer promotions, but they're not expecting great sales yields.

INCENTIVE MARKETING

Charts: Dale Glasgow

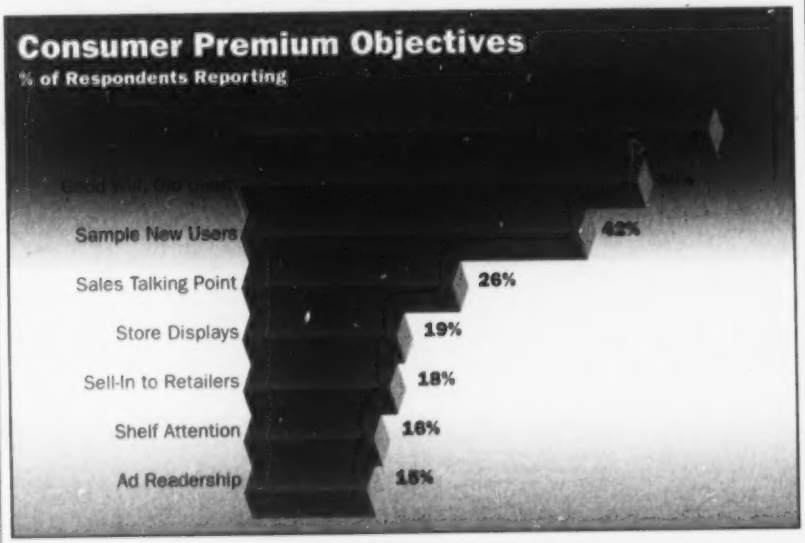
period. The median figures also dropped, from 12 percent last year to 10 percent now.

Those who count on promotions to help them obtain display space in retail stores also lowered their expectations. They said that, on average, 48 percent of dealers normally use their displays—about the same as in the 1991 report. But when it comes to spurring increased point-of-purchase usage through consumer offers, the anticipated percent-of-dealer usage fell from last year's average of 34 percent to only 22 percent this year.

While marketers are yielding less—as reflected in such measures as sales gains and increased display usage—they're also *giving* less. The value of free offers—direct premiums and free mail-ins—has declined since last year's survey.

In the current study, the ratio of premium cost to product purchase varies greatly, depending on the marketer's particular industry—and arithmetic. But the pattern has been fairly consistent in several surveys; last year the average direct-premium cost represented 15.1 percent of the consumer's purchase, and the average free mail-in item cost 20.3 percent of the qualifying purchase. This year those numbers have dropped to 10.1 and 14.5 percent, respectively.

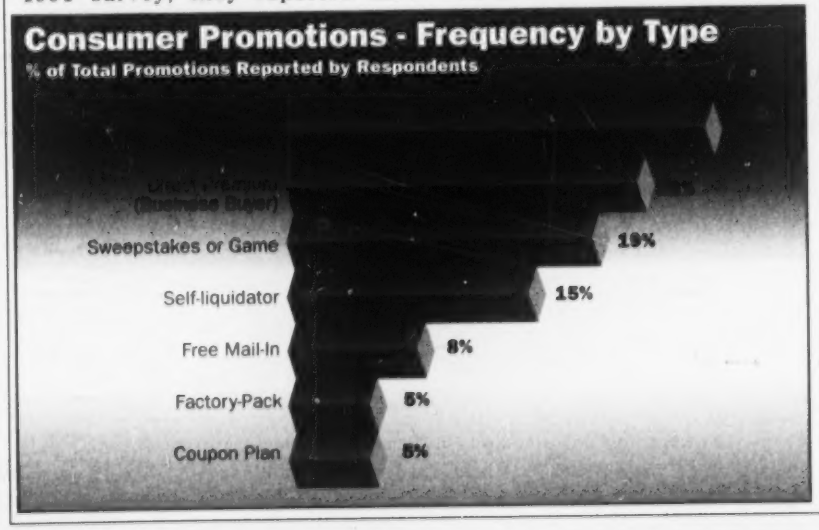
These users have also cut back on advertising their promotions, or at least the range of media used. In the 1991 survey, they reported an average of 2.7 different media used per company; this year, that average is only two. Direct mail, the top medium for several years, gained some ground and is now favored by 63 percent (up from 60), but usage of all other media declined. Point-of-purchase displays are now used by 32 percent; newspapers, 29; TV and radio, 23; trade publications, 16; consumer magazines, 15; free-standing inserts, 13, and on-package advertising, 9 percent. The biggest losers were trade publications, down by 13 percentage points, and package advertising, off by 12 points. Free-standing inserts lost 9 percentage points; newspapers and magazines each lost 8 points, and TV/radio fell by 7 percent.



In another area, respondents report little change in the traditional objectives targeted by users of consumer incentive promotions, although there has been some shift of emphasis this year. The top objective—"obtain repeat purchases"—dropped to 58 percent in this survey from a dominant 73 percent a year ago. Finishing second and third are "good will of old users" and "sampling new users." And, reflecting the pullback in the advertising, "increasing ad readership" is listed as a key objective by only 15 percent, versus 24 percent in '91, and is now last on the list (see chart, above).

While projecting an optimistic 8.6-percent increase in spending for consumer premiums, these executives seem less inclined to boost promotional support through trade incentives: They're planning only a 3.3-percent increase there. Companies are forecasting a drop of 2.5 percent in spending on merchandise incentives for salespeople and dealers, while projecting a big jump of 20.1 percent in spending on their travel campaigns. The increase in total travel usage in this survey, however, is inflated by the one in 12 companies who plan travel programs for this year and who spent nothing for travel in '91.

Not all respondents plan to cut back on trade promotion. For example, a small East Coast wholesaler wrote, "Most sales are either down or flat with the exception of the



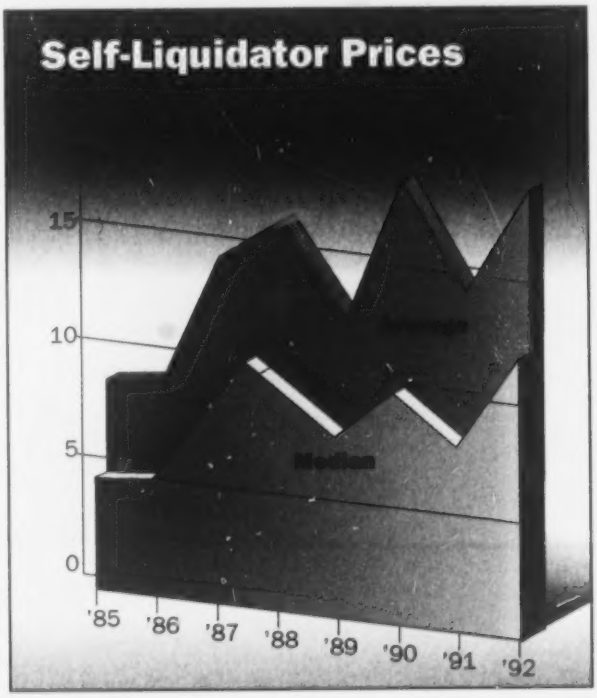
mass-market discounters. In order to increase our market share, I believe we have to offer an extra incentive or premium to get the consumer to purchase, and extra incentives to our sales reps to get out and try to write more orders." He added that he plans to double his sales incentive usage this year.

Value-added incentives. **Incentive** asked executives, "How has the recession affected your consumer promotions in the past year?" Responses varied widely from the few who said "not at all" to those who cited much stronger usage. One district manager for a major electrical manufacturer said flatly, "Incentives did very little to help business in the year 1991," and he reported a 20-percent reduction in the budget for consumer premiums this year.

An Ohio developer, however, claiming a 5-percent budget boost for consumer incentives in 1992, wrote, "We use premiums as an incentive in the lead generation for our land development [lot sales]. In these times, it appears that the consumer is more interested in the practical and useful rather than the obtuse." He reported a 10-percent promotion-period increase in sales.

This theme—offering value-oriented incentives to consumers—is echoed by Chris Donnelly, sales promotion manager of Allied-Signal Aftermarket Group (Fram and Autolite automotive products), E. Providence, R.I. The recession, he said, "has made me become more creative and aggressive in our marketplace. I believe people and consumers are really the same, not like some people think. Consumers are smart; treat them like you would want to be treated yourself—with good basic values—and you'll succeed over time." He reported sales growth via incentive programs, while projecting a substantial budget increase this year.

"Consumers are more value-oriented," agreed Robert I. Ginsberg, president of Carol Wright Sales Inc., Stamford, Conn. "Products that meet their value objectives continue to sell well, at any price point." He said he is counting on premiums to increase order sizes.



A Northeastern retail chain also is relying on consumer premiums to build repeat purchases as well as find new customers. "We have increased the number of in-store promotions offered, both generated internally and by support of vendor sweepstakes," wrote the executive. "Targeted direct mail has tripled from '90 and will probably double again in '92. Our response rates on direct-target mailings have consistently ranged from 3 to 5 percent and every one has been a success."

A West Coast marketer of entertainment products has noticed the same trend. "Promotions are less successful in dollar return," he said, "and more successful in number of responses. Consumers are looking." He reported that he is increasing this year's consumer incentive budget by 50 percent.

Self-liquidator trends. Marketers' efforts to add value to consumer offers is reflected in this year's reports of self-liquidator prices, which show a big leap from last year's survey estimates. In self-liquidating offers, the consumer pays the bill, and perceived value can be added without increasing the cost to the marketer. The average of all self-liquidating prices listed is $19.03, compared with $14.57 a year ago, and the median has risen from $6.95 to $12.

The hypothetical ceiling on self-liquidator prices has also risen substantially. The estimated price point at which respondents say consumers would *not* buy a self-liquidating offer is $101.30 in this survey, compared with the $68.15 average in 1991's surveyed group. In both years, however, the median estimate remains at $20, indicating that the most expensive items still represent a small minority.

"Self-liquidating" doesn't mean

CONTINUED ON PAGE 154

Response Rates

Median number of responses per 1,000 advertising exposures for mail-in offers

	PRINT	BROADCAST	DISPLAY	PACKAGE
Self-liquidator under $10	13	10	10	15
Self-liquidator $10 or more	10	10	15	9
Free mail-in offer	20	10	20	15

FACTS SURVEY

CONTINUED FROM PAGE 76

what it used to—and hasn't for a number of years. The erstwhile concept that the consumer price liquidated the cost of the merchandise as well as the postage or shipping costs has given way to the increasingly common practice of charging extra for getting the premium to the customer. But this latest practice has, perhaps surprisingly, declined somewhat in the latest survey—with exactly 50 percent saying they charge extra for shipping, down from the 66 percent who gave that answer in each of the past two years.

On the other hand, the basic charge for premiums is no longer liquidating the cost in all cases. In fact, survey respondents say that consumers' payments liquidate an average of only *64 percent* of the merchandise cost, while the median sits at 90 percent.

When the mail-in offer is free rather than self-liquidating, users pull back (as they have for several years) from pushing for multiple purchases. A few years ago, it was quite common to ask for five or 10 or more proofs of purchase for the free mail-in premium. The practice has declined steadily, and this year's survey shows an average requirement of just 2.4 proofs, with a median of two.

Testing the offers. About half the marketers in this survey prefer to test their consumer premiums, up slightly from the 1991 reports. For mail-in offers—both free and self-liquidating—46 percent say they test, just 1 percentage point more than a year ago; 53 percent, up 4 points, test direct-premium offers.

Among those who test, the favorite research technique is personal interviews, chosen by 49 percent. About 26 percent mail a single offer to consumers; 23 percent mail a ballot or questionnaire with a choice of items; 23 percent use a consumer panel for testing; 10 percent try out their items through package inserts; 9 percent make bounce-back offers; 8 percent like split-run ads, and only 4 percent favor the more time-consuming store-panel test.

Is this kind of research worth the trouble? Opinions vary, but survey respondents report a somewhat better record of test accuracy than in past studies. For example, concerning the accuracy in forecasting the number of responses to an offer, this year's survey shows an average variance of 17 percentage points (improved from plus or minus 20 percent last year). In earlier years, some surveys found test accuracy good to only within 30 or 40 percent—hardly worth the time and money spent on the test.

As might be expected with this somewhat improved yield of test results, 70 percent of this year's surveyed executives said they were satisfied with the degree of accuracy they experienced.

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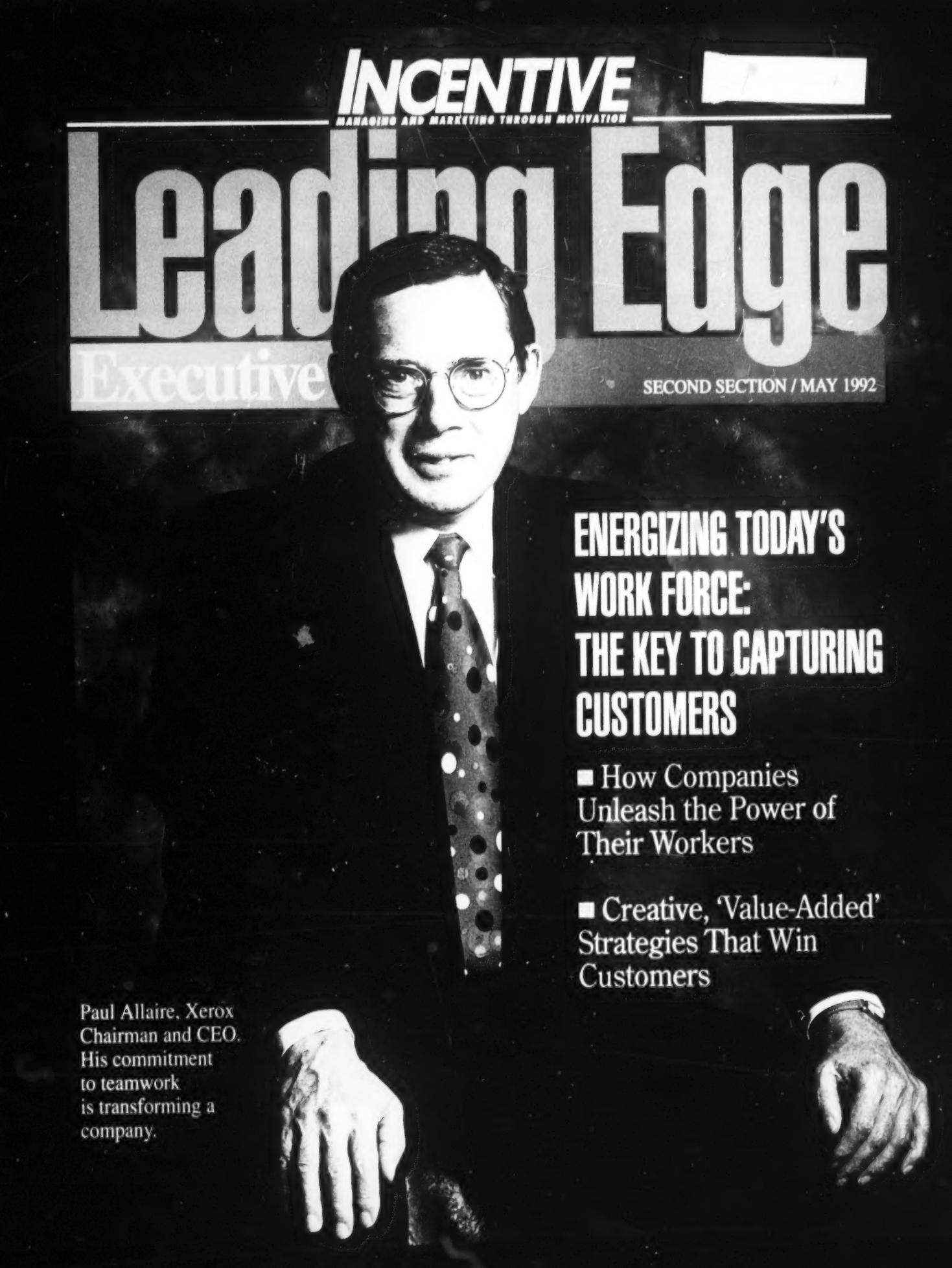
SECOND SECTION / MAY 1992



ENERGIZING TODAY'S WORK FORCE: THE KEY TO CAPTURING CUSTOMERS

- How Companies Unleash the Power of Their Workers
- Creative, 'Value-Added' Strategies That Win Customers

Paul Allaire, Xerox Chairman and CEO. His commitment to teamwork is transforming a company.

INCENTIVE
MANAGING AND MARKETING THROUGH MOTIVATION

MAY 1992

Leading Edge Executive

Cover Photo by Bill Bernstein

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Employee energy and ingenuity are boundless. So too are the ways to tap them.

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Total Quality Management is a complicated, integrated process. Its aim, however, is simple: to empower employees to deliver the best possible service to customers.

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Winning companies find creative ways to reward their employees for keeping customers happy.

30 WHO CAN HELP?
A listing of organizations that can help companies develop effective incentive campaigns.

Sponsored by: American Express Gift Cheques, Konica U.S.A., Marketing Innovators, Norwegian Cruise Line, Oneida Silversmiths, Princess Cruises, Sony Corporation of America, Toshiba America Consumer Products.

BY BILL KELLEY

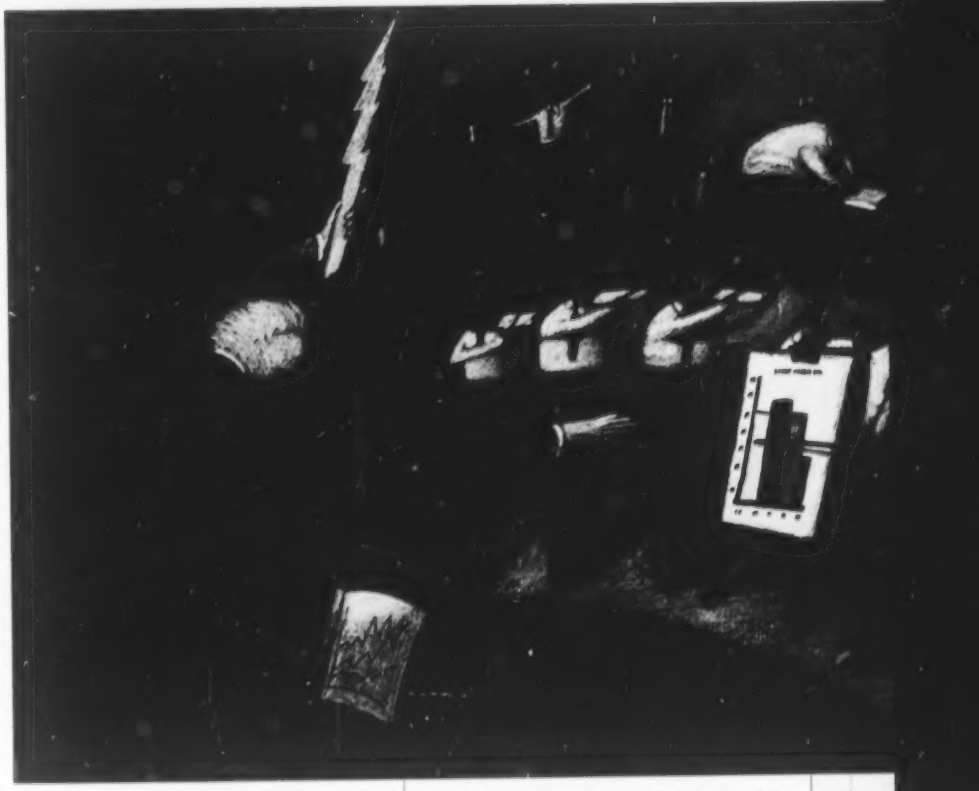
THE POWER OF INCENTIVE

Companies that harness their employees' energy are reaping profits that extend far beyond the bottom line.

■ Republic Engineered Steel reversed decades of labor-management strife when it instituted a participative management system and employee-suggestion program that now garner $60 million in annual savings for the manufacturer.

■ As many as 30,000 Motorola employees compete annually in a companywide quality contest that reaps millions of dollars in savings and reportedly inspires increased pride of workmanship.

■ The Bureau of Emergency Services in Portland, Ore., has used a recognition and reward program to spur employees to help reduce its turnover rate from 50 percent to a mere 3.1 percent.



Businesses and organizations across all sectors of the U.S. economy are discovering the power of incentive programs. "People, Performance and Pay," a landmark report on traditional awards and human resource practices from the American Productivity & Quality Center, confirms this trend. In the report, and similar ones from such prestigious organizations as The Conference Board, a New York business-research firm, researchers conclude that incentive programs can work all kinds of corporate magic, from boosting sales to improving quality to lifting employee morale.

In fact, according to "Variable Pay: New Performance Awards," a Conference Board report that surveyed more than 430 companies in a variety of industries, close to 75 percent of those who use incentives say they are "very successful" or "successful" in attaining their goals.

But incentives are playing their most profound role in the way they are helping to reshape corporate America. Motivational programs—in conjunction with solid training and other steps— are propelling customer-focused, quality-driven companies to the forefront of a cut-throat global economy.

Incentives, however, are not a panacea. In fact, they can be extremely limited in what they can do for a company. Designed well, they can motivate employees to work as a team and reach long-term goals. Conducted poorly, they will produce quite the opposite effect, perhaps even driving a wedge between management, workers and customers. "It's simplistic to think that devising an incentive program of some sort is going to solve a company's problems," says C. Jackson Grayson, acting chairman of the American Productivity & Quality Center in Houston.

Still, few corporate executives and management consultants will argue that providing incentives is a bad business practice, especially in today's marketplace. "The climate is changing radically," says David A. Garvin, a professor at the Harvard Business School. "Companies can no longer afford to take the old Henry Ford approach: You can have any color Model T as long as it's black. That's not the way to stay competitive."

Quality guru W. Edwards Deming, after whom the prestigious Deming Award is named, takes the point one step further. For American companies, he says, incentives are not just a question of good business, they're a matter of survival. "The question for CEO's is really quite simple,"

suggests Deming. "Do they want profits? Do they want [their companies] to survive? If so, they will have to change."

TRANSFORMING XEROX

Paul A. Allaire, chairman and CEO of the Xerox Corporation in Stamford, Conn., has overseen a dramatic instance of such change (see "The Agent of Change," page 16). Over the past decade, Xerox has transformed itself from a somewhat plodding manufacturer to a winner of the Malcolm Baldrige National Quality Award in 1989, and one of the country's most admired businesses.

During much of that time, the company has realized record sales and increased market share in its office-equipment business, which is the heart of the corporation. (Xerox also has financial services operations.) How did it do this? By putting quality and customer service first, and ensuring that senior executives were committed to those priorities. "Quality remains our basic business principle," says Allaire. "Our focus on quality keeps us focused on the customer. All of our people share the quality commitment that keeps them focused on achieving our business objectives—all customer-oriented.

"We've come up with a simple definition of quality," he continues. "Conforming to customer requirements. That definition goes beyond product quality. We take the view that every person in the company has a customer for the work they do."

To help turn these words into action, Xerox launched its Leadership Through Quality program in 1984, which incorporated rewards and recognition. The program was initiated after Xerox executives saw the company's revenues and profit growth slip dramatically. (From the mid-1960's to the mid-1970's, revenues grew at an average rate of about 23 percent per year, and profits increased at an average annual rate of about 20 percent; from the mid-1970's to 1980, however, those figures tumbled to about 16 percent and 14 percent, respectively.)

The goal of the program was simple: to remake Xerox into a quality company. Attaining that goal required changing the company's culture, which was no easy task considering its corps of roughly 110,000 employees worldwide. To help transform the firm, Xerox executives spelled out specific objectives, and formed a number of groups including representatives from each operating unit and corporate headquarters. With the support of senior management and others, the team then devised five mechanisms to facilitate change:

- standards and measurements to provide employees with ways of assessing and performing their work, solving problems and improving quality;
- formal recognition and rewards to ensure that Xerox workers are encouraged and motivated to practice specific types of behaviors;
- communications to keep employees informed of the objectives and priorities of the corporation in general and their work group in particular;
- training to provide employees with the tools and techniques for improving quality, and
- management involvement at all levels to make certain that executives not only espouse principles, but practice them daily.

The results have been dramatic. Not only has Xerox realized tremendous, measurable improvement in product quality, but revenues in Document Processing, the company's primary business, increased from $8.7 billion in 1984 to $12.4 billion in 1989. Also, during that same time, return on assets grew from 10.2 percent to 12.4 percent.

TOP MANAGEMENT SUPPORT

Commitment from the top tier of management is crucial to becoming a more customer- and quality-oriented company. In fact, it's the most important employee motivator, says Craig Benson, co-founder and chief operating officer of Cabletron Systems, an eight-year-old computer-network-systems manufacturer in Rochester, N.H., that was recently singled out by President George Bush for its rapid growth in an industry and region under duress. "When employees know how you feel about the customers, they get behind you," he says.

"The question for CEO's is really quite simple. Do they want [their companies] to survive? If so, they will have to change."

Paul Birdsong, general manager of Wallace Company, Inc., a Houston-based chemical equipment distributor, and a 1990 Baldrige Award winner, also believes employees will follow management's lead as long as "you prove to them that you're totally behind the ideas of quality and customers first."

That commitment, however, must venture far beyond talk. Executives must be willing to show their dedication, via incentive programs and other real—and symbolic—measures. At Wallace, for example, workers at all levels sit side by side in quality seminars. "If employees see that you're willing to do anything, if they see that you're personally involved with customers, they'll follow you," says Birdsong. "Otherwise, it's just words."

HOW TO BUILD AN EFFECTIVE PROGRAM

Management consultants suggest that companies take the following steps when building a program that will tap the power of their workers and satisfy the needs of their customers:

1. Make keeping customers the number-one priority. Understand what attracts customers to your product or service and what keeps them coming back for more.
2. Focus on customers, not consumers. Do everything economically feasible to get to know customers by name and needs, not just by demographic category.
3. Make satisfying customers another top priority; continually slice away procedures that stand in the way.
4. Give employees the opportunity to experience your product or service from the customer's perspective; make sure all employees have the opportunity to meet and deal with customers.
5. Organize the work force so that employees have the authority to do their jobs as efficiently as possible.
6. Make sure customers know that you appreciate their business.
7. Reward top-performing employees with the same enthusiasm displayed when rewarding top executives and salespeople.

Harvard professor David Garvin agrees. No CEO or company president would say employee motivation, quality and customer service are unimportant. Few, however, actively back up their words with actions, Garvin maintains. "One of the earliest litmus tests is to see how CEO's spend their time," he says. "If they talk about customers, but haven't actually been in a customer's office in two years, you have a pretty good idea of what they really think is important."

Alan Wilkins, a business professor at Brigham Young University and author of the book "Developing Corporate Character," says there are concrete steps that companies and executives should take when instituting change. First, he says, senior management should recognize the accomplishments of the past, in either a formal or informal manner. "You may want to put together a program to recognize past achievements," he says.

One of the biggest mistakes executives make when implementing company-wide change is to disavow past achievements. "The last thing you should do is say that everything that went on before was wrong," says Wilkins. "What you're implying is that what we did in the past was wrong, and so were you."

Next, he says, the new vision for the company should be "shared and negotiated"—that is, senior executives should talk to as many employees in different divisions as possible. People from the varied divisions should have a chance to air their opinions about change. "Encourage them to tell you what's going on," Wilkins adds. Management must also let other employees know how serious the problems are or how difficult the challenges will be.

Finally, says Wilkins, executives should build a coalition. They should involve employees in the process of formulating changes, and implement some of their suggestions on a trial basis before introducing them companywide. Executives should also inform employees about how these changes will benefit them individually and the company overall. "It's politics in the good sense," says Wilkins. "You want to get people on your side."

IMPLEMENTING INCENTIVES

One way to rally employees behind corporate change is through motivation, recognition and incentive programs. However, Wilkins cautions, programs must constitute just a part of a company's overall strategy. "Reward programs can be very good, but companies should wait until they're very sure of their goals before designing them," he says. "First, when you're trying something new, like reshaping a company, you're not sure what behaviors you should be rewarding. Second, if you just drop in something like an incentive program, it may look like you're trying to manipulate behavior."

Charles Peck, a senior researcher at The Conference Board and author of two

WORKERS' VIEWS ABOUT INCENTIVES

93% say American products could better compete against Japanese products if management better involved workers in efforts to improve quality and productivity.

57% say their own companies offer meaningful incentives to maximize the quality and productivity of their work.

46% say they think Japanese companies offer meaningful incentives to workers who improve quality and productivity on the job.

41% believe the average company listens to employees' ideas.

40% believe the average American company currently offers employees meaningful incentives to maximize quality and productivity.

Source: Survey on "Improving America's Competitiveness Through Employee Motivation," conducted by the Society of Incentive Travel Executives (SITE) Foundation.

Yvonne Gunner

"We constantly try to emphasize quality and service. They are the only things we can control."
—Armand Pohan, President, A-P-A Transport Corp.

reports, "Gainsharing for Productivity" and "Variable Pay: New Performance Rewards," agrees that such programs can be important. "They can reinforce changes in a culture," he says. "And they can be an integral part of focusing employees on customer service, quality and other corporate goals."

For example, says Peck, some companies are beginning to use important indicators such as customer survey responses in bonus and incentive programs, either on an individual or group basis. Others are using corporate profitability, production quality, increased market share and new market development as other long-term factors. "It really gets all levels of employees to think about these issues," he says.

The A-P-A Transport Corporation, a trucking company based in North Bergen, N.J., has instituted a number of programs to ensure excellence among its employees. Once a month about a half-dozen drivers, dock workers and managers at the company's five largest terminals meet over breakfast or dinner to discuss quality, including customer service, on-time delivery and safety. "We constantly try to emphasize quality and service," says president Armand Pohan. "They are the only things we can control."

In addition, A-P-A employs incentive programs for everything from improving operations and service to increasing sales. Two years ago, for example, A-P-A started the President's Club for its salespeople. One member is selected each quarter on the basis of a recommendation from a committee of three: the vice president of sales, general sales manager and director of marketing. Unlike many sales incentive programs, however, no quotas have to be reached. Instead, salespeople are judged on professionalism, product knowledge and customer service. Those who are selected receive a cash award, plaque, ring, satin jacket and a lunch with senior management.

Last year, A-P-A expanded the program to include a President's Club for operations workers. They too are selected by a committee and judged on the basis of their integrity, leadership and contributions to overall company profitability. Operations workers who are admitted to the President's Club receive the same rewards as salespeople.

These programs, along with A-P-A's employee of the month award, help establish a customer-focused atmosphere at the company, says Pohan. "That is the real goal of any of the things we do," he says.

EMPLOYEE COMMITMENT

Ensuring that employees are committed to and believe in incentive programs is, of course, crucial to their success. Programs must be fair, easily understood and have concrete goals and rewards. Without employee dedication, corporate changes will have little chance of taking hold.

And there is another consideration. Many employees today have become very cynical of change, says James E. Nickel, a principal at the international consulting firm Towers Perrin in Arlington, Va. "They kind of view anything new as the program du jour," he says. "They're skeptical, and they end up thinking that it's just another program that caught the chairman's eye and will soon be forgotten."

One reason for this, explains Nickel, is the abundant mistrust many employees feel toward senior management. It's not uncommon, he says, for employees to be asked to make sacrifices and enact changes, while top management continues to do business as usual, reaping big bonuses and perks. One company, he says, bragged about the millions of dollars a factory saved the corporation; executives, however, did little to reward the employees who brought about the savings. The result? Workers grew resentful of management, a situation that "happens a lot," according to Nickel.

Nickel also believes it's critical to involve labor unions in the shaping of any incentive or recognition programs. "For the most part, they are very cooperative and realize that incentives can be good for their members and the company. What workers are asking for is completely rational," he says. "They want to know what's going on; they want to be involved." ■

BY REGINA EISMAN

WHY COMPANIES ARE TURNING TO TOTAL QUALITY

When it's survival of the fittest, some of the fittest are attributing their success to Total Quality Management.

How can corporate America hold its own against foreign competition and the ravages of the recession? An increasing number of companies are finding that many answers lie in Total Quality Management, or TQM.

TQM—a management system that focuses on continuous improvement and counts among its components long-term goal setting, employee empowerment, and the use of worker teams to solve problems—has been around since the 1940's, but only in recent years has it formed the foundation of many companies' business strategies. Of 149 companies that responded to a 1989 survey by The Conference Board, a New York business-research firm, 111 said they had a quality-management system in place; 47 percent could attribute increased profits to the system. In another study, conducted by The Gallup Organization for the American Society for Quality Control in 1989, 54 percent of 601 senior executives surveyed said they were pleased with the results of their quality-improvement efforts, and 51 percent believed the U.S. was gaining on foreign competition in terms of quality.

Both quality consultants and executives who have embraced TQM believe that the process will help U.S. firms withstand the rigors of today's tough business climate. "I'd sum it up in one word: survival," says Roger Kaufman, director of the Center for Needs Assessment and Planning at Florida State University, and an industrial-engineering professor at the University of Central Florida. "Part of TQM is constantly meeting customer needs, and if you're not turning out something that the customer finds useful, it doesn't matter what else you do."

"We think that TQM is the key to our long-term competitiveness," claims Doug Chance, president of Octel Communications Corporation, a maker of voice-mail systems in Milpitas, Calif. "If we can provide answers to customer inquiries quickly and cut the time spent on reworking defects, we'll be in a better market position."

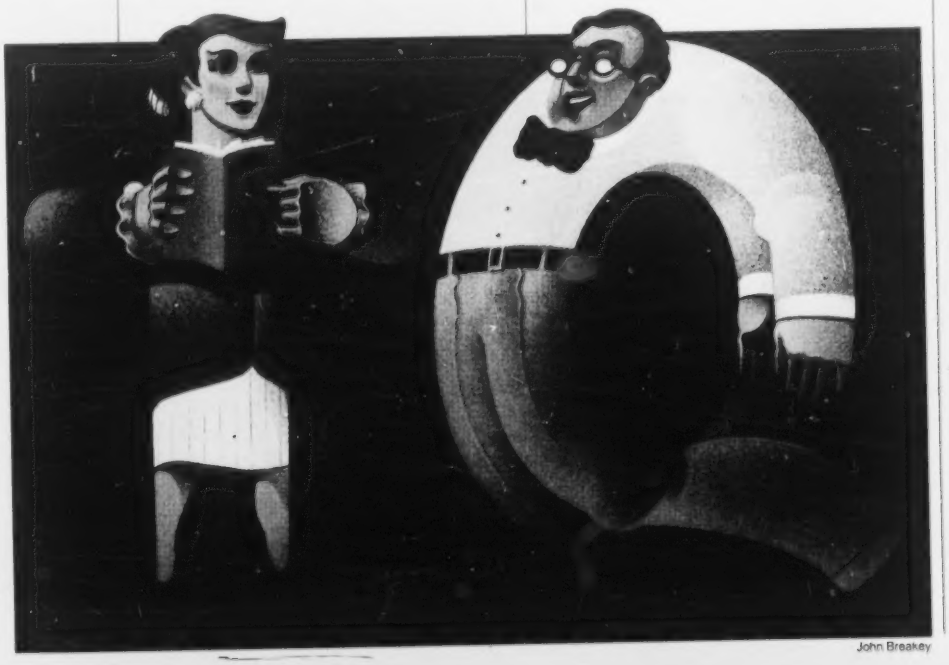
ELEMENTS OF QUALITY

Exactly what is TQM, and what does it involve? Experts agree that there's no concise definition, but TQM generally means that a company focuses on several critical goals:

■ Getting it right the first time, or creating systems that eliminate defects, instead of having to correct mistakes later. "Freedom from deficiencies means making sure things are done right the first time," says Howland Blackiston, president of The Juran Institute, a quality-consulting and training firm (named for quality guru Joseph Juran) in Wilton, Conn. "It costs less to do things right the first time."

The catalogue retailer L.L. Bean, for instance, now gives customers specific information about how a particular piece of clothing fits, and also tracks product returns due to sizing problems. In the past, customers who weren't sure what size to get would be told to order two sizes, thus wasting time—and the company's money—on product returns.

Philip Crosby, the author of eight books on quality management, and the



John Breakey

TRACKING TQM

As part of its 1990 study on Total Quality Management, the U.S. General Accounting Office asked 20 companies to keep track of internal improvements in four categories: product/service quality, employee relations, financial performance and customer satisfaction. Each company developed its own measurements for each category ("performance measures") and then reported to the GAO how many of those measures had improved. (It took an average of two and a half years for these improvements to occur.) The following chart represents the *total number* of measures and improvements recorded by the 20 companies.

CATEGORY	NUMBER OF PERFORMANCE MEASURES	HOW MANY IMPROVED
Product or service quality	65	59
Employee relations	52	39
Financial performance	40	34
Customer satisfaction	30	21

chairman of Career IV Inc., a consulting firm based in Maitland, Fla., estimates that not doing things correctly the first time costs at least 25 percent of revenues.

■ Meeting—or exceeding—customer expectations. "A lot of people think quality just means that something is good, but it's more than that," says James Bernard, president of Univar Corporation, a Seattle chemical distributor. "It's also meeting customer requirements—and changing your operations if those requirements change." For example, Solectron Corporation, an electronics supplier in San Jose, Calif., and one of the 1991 Malcolm Baldrige Award winners, surveys its 70 customer companies each week to assess their needs.

■ Continuously improving quality. A constant striving for better quality is perhaps the most important element of TQM. "Continuous improvement is never saying, 'We did all these quality projects, and now we don't have to do anything else,'" says Mark Hordes, president of Productivity & Quality Consultants International in Houston. "The process is ongoing." Bernard notes that "quality is a *process*, not a program." The word "program," he says, suggests a temporary situation, while "process" implies a cultural change or way of life.

Many companies are using various quality-award criteria to fuel their constant-improvement process. The Hewlett-Packard Company in Palo Alto, Calif., is measuring itself against the guidelines of the four-year-old Baldrige Award and Japan's Deming Prize, which Hewlett-Packard's joint Japanese-U.S. venture, Yokogawa HP, won in 1982. Hewlett-Packard plans to review each of its departments every two years to assess quality and devise changes based on its findings.

CRAFTING TQM

What are the steps to creating a quality-oriented corporate environment?

According to the experts, here's the path most firms take when developing a TQM culture:

■ Set up a committee (often called the Quality Council), consisting of senior-level employees, to guide quality within the organization.

■ Ensure senior management commitment to the quality process: Senior executives have to be involved in the company's quality efforts from day one. "I can't point to one instance in which stunning results have been achieved without the active participation of top management," Blackiston notes.

■ Empower employees. Give workers the authority to make certain decisions on their own. "Turning things over to the employees makes sense because they know their jobs better than anyone else," Kaufman says. For instance, Beverly, Ohio-based Globe Metallurgical—the only company to have won both the Baldrige Award and the Shingo Prize for Excellence in Manufacturing—uses no time clocks in its manufacturing plants and no first-line supervisors. "There are group leaders, but the teams basically manage themselves," says president Arden C. Sims.

■ Establish employee teams to solve problems and make recommendations. In addition, Blackiston says, create a process that will help you select the projects you want to tackle and appoint the teams that will tackle them. (Establishing teams and empowering employees are hallmarks of a management style known as participatory management.)

■ Set up specific, measurable objectives, both short- and long-term, as well as "stretch goals"—ones that the company must strive hard to attain (i.e., "reduce costs by 20 percent," "improve customer service by 10 percent").

One important stretch goal—and another important element of TQM—is "zero-defect management." Motorola,

Anne Hamersky

which garnered a Baldrige Award in 1988, has pioneered the concept by aiming to achieve "Six Sigma Quality," or a near-perfect defect record (3.4 defects per million). Solectron is now at Five Sigma, or 233 defects per million. The company has an even better record in certain areas, such as solder joints, in which it boasts a rate of fewer than 10 defects per million, claims president and co-chief operating officer Ko Nishimura.

■ Solicit feedback from customers—and don't neglect *internal* as well as external customers. Any employee whose job depends on another's can be considered a customer; for instance, workers who fill product orders are the customers of those who take orders over the phone.

■ Train all employees in quality-improvement techniques, ranging from technical skills such as benchmarking to people-oriented skills such as running a team meeting. Much of this process should involve hands-on training. "You can't just get people in a room and teach them quality," says Blackiston. "You need to do it while they're undertaking a project, so that they can learn by doing."

■ Update the firm's reward and recognition system. "About 10 percent of everyone's time will be spent on quality efforts, so rewards should reflect these new responsibilities," says Blackiston. Awarding plaques, staging recognition banquets and publicizing employee achievements in company newsletters are some of the ways that companies can thank their workers. Last year, for instance, Houston's Shell Oil Company created a President's Award for Excellence to reward teams that solved problems and improved processes. Winners are honored at a dinner, and finalists are recognized at a separate party as well.

■ View mistakes as a learning experience. "You have to stop blaming people," says Kaufman. When something goes wrong, take the opportunity to improve a particular process, rather than finding a way to assign blame, he adds.

"Our number-one goal is to serve our customers, but we also want to reduce operating costs by 20 percent over the next couple of years."
— Peyton Gannaway, President, Anthem Electronics

ROBUST RESULTS

Companies that follow these principles are realizing substantial gains. In a study conducted by the U.S. General Accounting Office, service and manufacturing firms reported that it took an average of two and a half years to gain initial benefits from TQM. Brian Joiner, chief executive officer of Joiner Associates, a consulting company based in Madison, Wis., adds that it can take companies five to 10 years to achieve world-class status in management practices, but that some payoffs can be seen in a month's time.

Anthem Electronics in San Jose, Calif., has already reaped some rewards, although its formal quality process didn't start until mid-1990. "Our number-one goal is to serve our customers, but we also want to reduce operating costs by 20 percent over the next couple of years by making our systems more efficient. This, in turn, means better customer service," says president Peyton Gannaway.

"Customers liked us before, but they like us even better now," he adds. "The responses from our customer surveys are improving, and we know that they respect what we're doing." Profits at Anthem have also increased from $408 million in 1990 to $420 million in 1991, though Gannaway can't be sure that this windfall is due to the firm's quality efforts.

So far, Anthem has sent a group of executives to study with W. Edwards Deming for four days, and has set up a quality steering committee to coordinate improvement among divisions. Employees serve on quality teams and undertake projects that they assign themselves. If workers spot a problem within the organization, they can do one of three things: Take it to an existing quality committee, form an ad-hoc team to study it, or meet with supervisors to discuss solutions.

"We're looking at everything we do to see if we're doing it in the most timely, accurate and efficient way," Gannaway says. The company is studying ways in which it can reduce the amount of paperwork processed, refine bar-coding methods, improve means of packaging and shipping parts among company divisions, and enhance voice-mail systems among divisions.

'CAPITAL' GAINS

"Quality in government" is rapidly losing its status as an oxymoron and racking up an array of impressive results.

The federal government estimates that employee suggestions have been saving Uncle Sam more than $1 billion a year. By the end of 1992, the government is hoping to improve service efficiency by 20 percent—a figure that some government-watchers say could reduce the deficit by about 5 percent.

Much of the momentum has come from the Federal Quality Institute, created by President Ronald Reagan in 1988. The FQI, based in Washington, acts as a kind of TQM overseer—holding TQM seminars for federal agencies, maintaining a quality library and working with quality-driven companies like Xerox, Motorola and Westinghouse, who advise the government on its efforts to improve efficiency.

The FQI was the second phase of a government productivity push that started in 1986 with the President's Productivity Improvement Program. This program required government agencies to improve their performance through such TQM practices as developing productivity goals and measurements, starting employee-involvement programs and distributing rewards for workers' achievements.

In 1988, the federal government kicked off its Annual Conference on Federal Quality and Productivity Improvement, which combines workshops and panel discussions with a recognition ceremony for the government's Excellence Awards. Branches of the U.S. Navy, the National Aeronautics and Space Administration and the Veterans Administration are among those that have been singled out for their quality accomplishments. In 1989, a technician at a naval aviation depot in California became the first government employee in years to win the "suggester of the year" award from the National Association of Suggestion Systems. He garnered the honor for developing a computerized inventory system that has saved the Navy more than $600 million so far.

EYE ON THE PRIZE

Quality-driven companies have a chance to be recognized for their achievements through a number of quality awards. Among them:

■ The *Malcolm Baldrige National Quality Award* was created in 1988 by the U.S. Department of Commerce and named after its late Secretary. The Department of Commerce's National Institute of Standards and Technology gives the award to American companies in three categories: manufacturing, service and small business.

■ The *Deming Prize* was established in 1951 by the Japanese Union of Scientists and Engineers to honor W. Edwards Deming, the consultant who taught quality control to the Japanese. Awards are bestowed on firms in four categories: small enterprises, large enterprises, factories and company divisions. Though the award originated in Japan, non-Japanese companies are eligible to apply.

■ The *Japan Quality Control Award*, created in 1969, is only for companies that have won the Deming Prize and have since achieved an even higher level of excellence. Applicants must wait five years after winning Deming to apply for this award.

■ The *Shingo Prize for Excellence in Manufacturing* goes to American companies or Japanese factories in the U.S. The award, named for a Japanese consultant, is sponsored by several organizations, including the American Productivity & Quality Center, the National Association of Manufacturers, the Health Industry Manufacturers Association and the Association for Manufacturing Excellence. The prize, launched in 1988, is given in both the large- and small-business categories.

Of course, the longer companies have practiced TQM, the more striking their results have been. Solectron, which initiated the move toward TQM in 1984, has, aside from attaining Five Sigma Quality, decreased the closing period for its monthly books from nine days to three by eliminating various defects in its accounting process.

The firm's pre-tax profits have risen by 30 percent over the past three years, which Nishimura attributes, at least in part, to TQM. "When we talk about TQ, we don't talk in terms of saving money—we talk in terms of improving quality," Nishimura says. "But when you improve quality, you end up saving money."

The Shell Oil Company has experienced some favorable results as well. For instance, the company has revamped its credit-card Actionline by installing a voice-mail system, restaffed the Actionline to coincide with peak and off-peak calling times, and created a separate phone number for Shell dealers. The team that worked on this project reduced its busy-signal rate from 80 percent to 3 percent, says Philip J. Carroll, executive vice president of administration.

Hewlett-Packard, which won the Douglas D. Danforth Award for Quality in Manufacturing in 1991, cites an array of impressive developments since the late 1970's, when it found that 25 percent of its manufacturing costs could be attributed to quality problems. In his acceptance speech for the award, Hewlett-Packard's president and chief executive officer John A. Young said that the company has come very close to achieving its stretch goal: a tenfold decline in the rate of product failures.

While some critics claim that TQM is simply a meaningless buzzword, quality experts see the far-reaching value of the practice. "Some people say TQM is a fad, but it's a revolution," says Ross Robson, dean of the Utah Business School and executive director of the Shingo Prize. "I'm convinced it's going to stay with us because the Japanese are forcing us to pay attention to quality."

"In hard times, a lot of companies still resort to cutting staff," says Joiner. "Can TQM avoid this? Maybe not totally. The federal deficit, the credit-card economy of the 90's—we'll be paying for these things for a long time. I don't think anything, TQM included, is a guarantee against layoffs. But it's the best way that I know to avoid being destroyed by negative forces." ■